109992

LM109992

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C.

109992

FOR RELEASE ON DELIVERY
EXPECTED AT 10:00 A.M. EDT
Tuesday, July 31, 1979

STATEMENT OF

ALLEN R. VOSS

DIRECTOR, GENERAL GOVERNMENT DIVISION

BEFORE THE

COMMERCE, CONSUMER AND MONETARY AFFAIRS SUBCOMMITTEE H 1601

OF THE

COMMITTEE ON GOVERNMENT OPERATIONS

UNITED STATES HOUSE OF REPRESENTATIVES

Thank you, Mr. Chairman. We are pleased to be here today to discuss our report on the information collected on foreign investments in U.S. depository institutions. That report was, of course, the result of work requested by you to determine what kind of data is collected on such investments, how it is kept, and how it is used.

Our overall conclusion is that there is now no comprehensive systematic way to collect data on all foreign investments in depository institutions in this country. As I will explain later, the financial institutions regulators probably will get sufficient information on persons who wish to buy controlling

~~005993~~/109992

interests in banks. For smaller investments, though, little data exists now, or will exist in the future, for the vast majority of financial institutions. Therefore, the level of all foreign investments in U.S. banks can not be monitored.

RESPONSIBILITIES FOR COLLECTING DATA

Both the Department of Commerce and the Board of Governors of the Federal Reserve System collect data on foreign investments in banks. The Department of Commerce does so under authority delegated by the President under the International Investment Survey Act of 1976. The Federal Reserve does so because it feels the matter is important, but it has no legislative requirement. As our report stated, neither agency has a systematic, comprehensive method for gathering information on all foreign investments.

Commerce scans news media sources and relies on the bank regulatory agencies to inform it of significant foreign investments. In early 1976, Commerce entered into agreements with these agencies to identify foreign investments and report them to Commerce. In 1975 and 1976, the agencies identified three foreign investments to Commerce. Since then, the bank regulators either have identified no investments for Commerce or have sent data that does not identify investors' names, addresses, or citizenship. Of course, the agencies do give Commerce supplemental information after Commerce has identified a foreign investment and asked for additional data. But, we found that Commerce has to rely to a great extent on the news media to initially identify foreign investments in U.S. banks.

The Federal Reserve staff also relies on the news media to identify foreign investments. Also, when the Board of Governors publishes a decision on acquisitions, the staff tries to identify foreigners by the names involved.

To determine if, in fact, foreign investments were being identified by the Federal Reserve and by Commerce, we compared lists of such investments prepared by each. First, we compared the Federal Reserve's list as of December 31, 1978, to the Commerce list as of the same date. Those lists are constructed differently and contain different information, so they are somewhat imcompatible. But, using the knowledge of those who prepared the list, we identified two foreign-owned banks on the Federal Reserve list but not on Commerce's and 15 on the Commerce list but not on the Federal Reserve's.

In addition, the Federal Reserve prepared a list of foreign-owned domestic bank holding companies as of December 31, 1977. We compared that list to the Commerce list and found that six of the eight domestic companies identified by the Federal Reserve did not appear on the the Commerce list.

CURRENT SYSTEMS ARE NOT ADEQUATE

We have been advised that the reason that the banking agencies do not identify foreign investments is that there is no legislative requirement to do so. These agencies do collect some information on the citizenship of shareholders in some financial institutions. But this effort was not designed to monitor the overall level of foreign investments. The information is merely collected as incidental to a variety of regulatory functions.

Under the Securities Exchange Act, as amended, the banking agencies will collect reports that show the citizenship of persons that purchase a significant amount of shares in a company required to register under the act. But only 849 of the almost 19,000 commercial banks and savings and loan associations are registered, so most are not covered by this requirement.

Domestic bank holding companies are required to report annually the citizenship of owners of at least five percent of any class of securities. However, this data is not kept by the Federal Reserve in a manner that is conducive to monitoring the level of foreign investments.

Furthermore, a holding company may not know an owner's citizenship. In fact, in a sample we took of holding company annual reports, 22 percent of them did not show the citizenship of at least one significant shareholder. Of those, about 20 percent had total banking assets exceeding $100 million.

The bank regulatory agencies have been collecting background data on persons who seek to purchase control of a bank, start a new bank, or apply for deposit insurance. This information, again, was not designed to monitor foreign investments, per se, so it is not kept in such a way that it can be useful for that purpose.

Finally, under the Change in Bank Control Act of 1978, passed last November, the banking regulators will collect citizenship information on persons who seek to purchase control of a bank. But the definition of "control" is such that an individual could buy up to 24 percent of the stock of a bank not registered under securities laws and still not have to file any data that disclosed his citizenship. Furthermore, once an individual has gained control of an institution, he does not have to report additional investments in that organization. Finally, the law does not require those who controlled institutions before March 10, 1979, to report that previous ownership.

However, if a holding company purchases a bank, the transaction is subject to the Bank Holding Company Act. Currently, applications for firms wishing to become bank holding companies do not disclose the citizenship of the owners of the companies, but they do show the names and addresses of the owners.

A NEW SYSTEM IS NEEDED

The Commerce Department's inability to identify all foreign investments is therefore linked to the patchwork of regulations and statutes under which various agencies collect information. Commerce recently has made new arrangements with the bank regulators to get information they will collect pursuant to the Change in Bank Control Act, so data on foreign investors who actually gain control of banks after the effective date of the act--March 1979--will probably be comprehensive. However, if the Congress decides that more data is needed on all levels of investment, some new system will be needed to collect and tabulate it.

We have suggested that such a system, if required, should

--Have the financial institutions regulatory agencies collect the data from the institutions they supervised rather than from individual investors.

--Be based on periodic reports sent by the institutions to their regulators.

--Require the regulators to share this information with the Commerce Department.

The advantages of this method are that the agencies could expect the reports at regular intervals, and they could enforce the reporting requirement through their regular examination process.

The disadvantage of this approach is that financial institutions may not know who their owners really are, or at least may not know their citizenship, and these institutions have no statutory authority to collect such information.

We realize, of course, that it will cost something to obtain additional information. Certainly the cost should be balanced against how much information is needed to adequately monitor foreign investments. Furthermore, any system requiring financial institutions or their owners to provide more information to the government will place some burden on them. That is why we suggested in our report that before any additional data is required, the financial institutions regulatory agencies ought to be asked to assess for the Congress the added costs and burdens involved.

Mr. Chairman, this concludes my prepared statement. I will be happy to answer questions you may have concerning our work.